

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Kalkaska County Road Commission	County Kalkaska
Audit Date 12/31/04	Opinion Date 8/17/05	Date Accountant Report Submitted to State: 9/22/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson & Decker, P.C.			
Street Address P.O. Box 746		City Roscommon	State MI
Accountant Signature 		ZIP 48653	
Digitally signed by James M. Anderson, CPA DN: cn=James M. Anderson, CPA, c=US, o=Anderson & Decker, PC, email=jma@m33access.com Date: 2005.09.22 11:38:01 -04'00'		Date 9/22/05	

**KALKASKA COUNTY ROAD COMMISSION
FINANCIAL REPORT
DECEMBER 31, 2004**

KALKASKA COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Harold Sheffer
Chairman

Kevin Davis
Vice Chairman

James Green
Member

Michael Slater
Engineer-Manager

Lori A. Harbour
Office Manager/Clerk

Brenda G. Smith
Payroll Clerk/Secretary

KALKASKA COUNTY ROAD COMMISSION

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Balance Sheet	11
Reconciliation of the Balance Sheet Fund Balance to the Statement of Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balance	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	14
Notes to Financial Statements	15-25
Required Supplemental Information:	
Statement of Revenues and Other Financing Sources- Budgetary Comparison Schedule	26
Statement of Expenditures - Budgetary Comparison Schedule	27
Supplemental Schedules:	
Analysis of Fund Balances	28
Analysis of Revenue and Other Financing Sources	29
Analysis of Expenditures	30
Report on Compliance and on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	31-32



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653
(989) 275-8831

INDEPENDENT AUDITORS' REPORT

August 17, 2005

Board of County Road Commissioners
Kalkaska County Road Commission
Kalkaska, MI 49649

We have audited the accompanying basic financial statements of the Kalkaska County Road Commission of the County of Kalkaska, Michigan as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

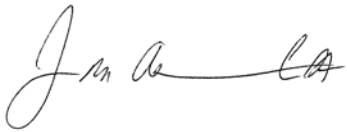
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Kalkaska County Road Commission as of December 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also a report dated August 17, 2005, on our consideration of the Kalkaska County Road Commission's internal control structure and a report dated August 17, 2005, on its compliance with laws and regulations.

Page 2
Board of County Road Commissioners
Kalkaska County Road Commission
August 17, 2005

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Kalkaska County Road Commission. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "J. Anderson".

ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2004

USING THIS ANNUAL REPORT

The Kalkaska County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

REPORTING THE ROAD COMMISSION AS A WHOLE

The statement of net assets and the statement of activities report information about the commission as a whole and about its activities in a way that helps answer the question on whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

REPORTING THE ROAD COMMISSION'S MAJOR FUND

Our analysis of the road commission's major fund begins on page 4. The fund financial statements begin on page 9 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2004
(CONTINUED)

THE ROAD COMMISSION AS A WHOLE

The road commission's **net** assets decreased \$63,838 or approximately 0.5% for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net assets as of the year ended December 31, 2003 and 2004 follows:

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Current and Other Assets	\$ 1,235,228	\$ 1,199,833
Capital Assets (Less Depre.)	<u>12,717,246</u>	<u>13,305,985</u>
Total Assets	<u>13,952,474</u>	<u>14,505,818</u>
Current Liabilities	373,554	516,941
Other Liabilities	<u>205,839</u>	<u>679,634</u>
Total Liabilities	<u>579,393</u>	<u>1,196,575</u>
Net Assets		
Invested in Capital Assets	12,510,492	12,551,115
Unrestricted	<u>862,589</u>	<u>758,128</u>
Total Net Assets	<u>\$ 13,373,081</u>	<u>\$ 13,309,243</u>

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31,2004
(CONTINUED)

A summary of changes in net assets for the year ended December 31, 2003 and 2004 follows:

	Governmental Activities	
	2003	2004
Program Revenues:		
Charges for Services (includes permits)	\$ 32,213	\$ 30,920
Federal Sources	655,448	-0-
State Sources	3,444,994	3,455,630
Contributions from local units	413,997	188,470
Interest Income	2,523	10,873
General Revenues:		
Gain on Disposal of Equipment	92,172	65,415
Total Revenues	<u>4,641,347</u>	<u>3,751,308</u>
Program Expenses:		
Primary Roads:		
Maintenance	1,194,810	1,298,358
Local Roads:		
Maintenance	1,513,985	1,552,527
Equipment Expense	(142,077)	(74,303)
Administrative	293,659	321,875
Infrastructure depreciation	986,313	688,464
Compensated Absences	7,166	14,106
Interest	8,526	14,119
Total Expenses	<u>3,862,382</u>	<u>3,815,146</u>
Increase (Decrease) in Net Assets	<u>\$ 778,965</u>	<u>\$ (63,838)</u>

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31,2004
(CONTINUED)

THE ROAD COMMISSION'S FUND

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the general operations fund decreased by \$90,355 as compared to a increase of \$141,185 in the fund balance for the year ended December 31, 2003 (last year). Total revenues were \$4,434,818, a decrease of \$347,342 as compared to last year. This change in revenues resulted primarily from the loss of Federal revenue of \$655,448 and reduced local unit contributions of \$225,527 offset by additional debt received of \$542,697.

Total expenditures were \$4,525,173, a decrease of \$115,802, as compared to last year. This change in expenditures is primarily due to the purchase of new trucks and equipment, increased diesel fuel cost, insurance costs and general material cost increases realized offset by reduced primary and local road heavy maintenance of \$1,087,151.

BUDGETARY HIGHLIGHTS

Road Commission revenues were budgeted for a total of \$3,820,000. Actual revenues were \$4,434,818. The most notable variance is caused from the receipt of \$683,510 in debt proceeds which were not anticipated in the original budget.

Road Commission expenditures were projected as \$3,820,000 while actual expenditures were \$4,525,173. This resulted in total expenditures being over budget by \$705,173. The variance is primarily from the expenditures budget not being adjusted for the equipment purchase financed by the additional debt.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31,2004
(CONTINUED)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2004 (year end), the road commission had \$13,305,985 invested in capital assets as follows:

	<u>2003</u>	<u>2004</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 95,964	\$ 95,964
Other Capital Assets		
Buildings and Improvements	551,101	555,983
Road Equipment	3,138,345	3,751,334
Other Equipment	108,873	109,973
Infrastructure and Improvements	<u>18,149,946</u>	<u>17,857,635</u>
Total Capital Assets at Historic Cost	22,044,229	23,370,889
Total Accumulated Depreciation	<u>(9,326,983)</u>	<u>(10,064,904)</u>
Total Net Capital Assets	<u>\$ 12,717,246</u>	<u>\$ 13,305,985</u>

Current year's major additions included the following:

Various Projects (Primary and Local)	\$ 1,794,840	\$ 930,481
Trucks/Equipment	\$ 194,090	\$ 707,689

DEBT

A new instalment loan was taken for the purchase of five trucks totaling \$683,510. This will be paid by 60 payments of \$12,295.37 per month.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The road commission derives approximately 90% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

With increases in employee benefit and general operating costs as well as material costs with diminishing revenues, the board of road commissioners is cognizant that there is not sufficient funds available to repair and/or rebuild every road in Kalkaska County's transportation system. Therefore, the board will attempt to spend the public's money wisely and equitably and in the best interests of the motoring public and the citizens of Kalkaska County.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31,2004
(CONTINUED)

CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Kalkaska County Road Commission administrative offices at 1049 Island Lake Road, Kalkaska, Michigan 49646.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

ASSETS

Imprest cash	\$ 250
Cash demand and time deposits	260,532
Accounts receivable	
Due from other governmental units	593,139
Inventories	345,912
Capital Assets (Net of Accumulated Depreciation)	<u>13,305,985</u>
Total Assets	<u>14,505,818</u>

LIABILITIES

Current Liabilities	
Accounts payable	235,975
Accrued liabilities	39,483
Advances from other Governmental units	60,000
Lease Purchase	40,615
Equipment note payable	140,868
Non Current Liabilities	
Lease Purchase	73,082
Equipment note payable	500,305
Vested Employee Benefits Payable	<u>106,247</u>
Total Liabilities	<u>1,196,575</u>

NET ASSETS

Investment in Capital Fixed Assets	
Net of Related Debt	12,551,115
Restricted for County Roads	<u>758,128</u>
Total Net Assets	<u>\$ 13,309,243</u>

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Program Expenses	
Primary Road Maintenance	\$ 1,298,358
Local Road Maintenance	1,552,527
Net Equipment Expense	(74,303)
Net Administrative Expense	321,875
Infrastructure Depreciation	688,464
Compensated Absences	14,106
Interest Expense	<u>14,119</u>
Total Program Expenses	<u>3,815,146</u>
Program Revenue	
State Grants	3,455,630
Contributions from Local Units	188,470
Charges for Services	30,920
Investment Earnings	<u>10,873</u>
Total Program Revenue	<u>3,685,893</u>
Net Program Revenue	<u>(129,253)</u>
General Revenue	
Gain (Loss) on Equipment Disposal	<u>65,415</u>
Total General Revenues	<u>65,415</u>
Change in Net Assets	(63,838)
Net Assets	
Beginning of Year	<u>13,373,081</u>
End of Year	<u><u>\$ 13,309,243</u></u>

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
BALANCE SHEET
DECEMBER 31, 2004

	Governmental <u>Fund Type</u> General <u>Operating</u>
ASSETS	
Imprest cash	\$ 250
Cash demand and time deposits	260,532
Accounts receivable:	
Due from State	481,653
Due on road agreements	111,486
Inventories	<u>345,912</u>
Total Assets	<u><u>\$ 1,199,833</u></u>
LIABILITIES AND FUND EQUITY	
Accounts payable	\$ 235,975
Accrued liabilities	39,483
Advances from other governmental units	<u>60,000</u>
Total Liabilities	<u>335,458</u>
Fund Equity:	
Fund Balance:	
Undesignated	<u>864,375</u>
Total Fund Equity	<u>864,375</u>
Total Liabilities and Fund Equity	<u><u>\$ 1,199,833</u></u>

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

Total governmental fund balance	\$ 864,375
---------------------------------	------------

Amounts reported for governmental activities in
the statement of new assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	13,305,985
---	------------

Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(861,117)</u>
--	------------------

Net assets of governmental activities	<u>\$ 13,309,243</u>
---------------------------------------	----------------------

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
DECEMBER 31, 2004

	<u>Operating Fund</u>
Revenues	
State Grants	\$ 3,455,630
Contributions From Local Units	188,470
Charges for Services	26,953
Interest and Rents	10,873
Other Revenue	<u>69,382</u>
Total Revenues	<u>3,751,308</u>
Other Financing Sources:	
Lease Purchase Proceeds	<u>683,510</u>
Total Other Financing Sources	<u>683,510</u>
Total Revenues and Other Financing Sources	<u>4,434,818</u>
Expenditures	
Public Works	3,806,146
Net Capital Outlay	569,514
Debt Service	<u>149,513</u>
Total Expenditures	<u>4,525,173</u>
Excess of Revenues and Other Financing Sources (Under) Expenditures	(90,355)
Fund Balance-January 1, 2004	<u>954,730</u>
Fund Balance-December 31, 2004	<u><u>\$ 864,375</u></u>

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net Change in fund balance-total governmental funds \$ (90,355)

Amounts reported for governmental activities
in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities. 588,739

Note proceeds provide current financial resources to governmental funds, but entering into note payable agreements increases long-term liabilities in the statement of net assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. (548,116)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense). (14,106)

Change in net assets of governmental activities. \$ (63,838)

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Kalkaska County Road Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

DESCRIPTION OF ROAD COMMISSION OPERATIONS - The Kalkaska County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Kalkaska, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance and contributions from other local units of government for work performed by the Road Commission work force.

The Road Commission which was established pursuant to statute in 1915 operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. A different Road Commissioner is elected biannually to serve a six year term.

FINANCIAL REPORTING ENTITY - The Road Commission is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this State requirement.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Kalkaska County Road Commission, a discretely presented component unit of Kalkaska County, and include the Road Commission Operating Fund, General Fixed Asset Account Group, and General Long-Term Debt Account Group.

BASIS OF PRESENTATION-GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all the Kalkaska County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING—GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year of which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: charges to customer or applicants for goods or services or privileges provided; Michigan transportation funds; and State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING—FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less within the date acquired. Investments are stated at fair value.

INVENTORY - Inventories consisting of equipment parts and supplies of \$134,592 and road materials of \$211,320, are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Kalkaska County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Kalkaska County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED VACATION AND SICK - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts.

Employees are compensated 100% of their vested vacation leave and 50% to 100% (depending in employees classification) of their vested sick leave upon termination for any reason.

EQUIPMENT RENTALS - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

DEPRECIATION - Depreciation is computed on the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure-Roads	8 to 30 years
Infrastructure-Bridges	12 to 50 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in operating fund statement of net assets.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE B - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Cash on hand	\$ 250	Cash on hand	\$ 250
Cash demand and time deposits	<u>260,532</u>	Savings	<u>260,532</u>
	<u>\$ 260,782</u>		<u>\$ 260,782</u>

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for Kalkaska County Road Commission's cash deposits are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 119,181
Uninsured and Uncollateralized	<u>160,532</u>	<u>233,109</u>
Total Deposits	<u>\$ 260,532</u>	<u>\$ 352,290</u>

DEPOSITS - At year-end the carrying amount of the County Road Commissions deposits were \$260,532 and the bank balance was \$352,290. According to the Federal Deposit Insurance Corporation, approximately 34% of the total bank balance was covered by federal depository insurance. Michigan statutes do not allow collateralization of governmental deposits.

INVESTMENTS - Act 217, PA 1982, authorizes the County Treasurer to deposit and invest for the Road Commission in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any one time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance 1/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/04</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 95,964	\$ -0-	\$ -0-	\$ 95,964
Subtotal	<u>95,964</u>	<u>-0-</u>	<u>-0-</u>	<u>95,964</u>
Capital Assets Being Depreciated:				
Buildings	551,101	4,882	-0-	555,983
Road Equipment	3,138,345	924,499	311,510	3,751,334
Shop Equipment	34,523	-0-	-0-	34,523
Office Equipment	74,350	1,100	-0-	75,450
Infrastructure-Bridges	1,122,538	-0-	-0-	1,122,538
Infrastructure-Roads	<u>17,027,408</u>	<u>707,689</u>	<u>-0-</u>	<u>17,735,097</u>
Total	<u>21,948,265</u>	<u>1,638,170</u>	<u>311,510</u>	<u>23,274,925</u>
Less Accumulated Depreciation:				
Buildings	448,096	23,319	-0-	471,415
Road Equipment	2,426,957	307,032	294,149	2,439,840
Shop Equipment	32,703	1,820	-0-	34,523
Office Equipment	56,039	11,435	-0-	67,474
Infrastructure-Bridges	256,888	30,786	-0-	287,674
Infrastructure-Roads	<u>6,106,300</u>	<u>657,678</u>	<u>-0-</u>	<u>6,763,978</u>
Total	<u>9,326,983</u>	<u>1,032,070</u>	<u>294,149</u>	<u>10,064,904</u>
Net Capital Assets Being Depreciated	<u>12,621,282</u>	<u>606,100</u>	<u>17,361</u>	<u>13,210,021</u>
Total Net Capital Assets	<u>\$12,717,246</u>	<u>\$ 606,100</u>	<u>\$ 17,361</u>	<u>\$13,305,985</u>

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE D - PENSION PLAN

Plan Description - The Kalkaska County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401(a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

All full time Road Commission employees are eligible to participate in the system. Benefits vest after ten year of service. Employees who retire at or after age 60 with 10 years credited service are entitle to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2004 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/04)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 5,796,085
Terminated employees not yet receiving benefits	15,282
Current Employees:	
Accumulated employee contributions including allocated investment income	-0-
Employer financed	<u>1,864,470</u>
Total actuarial accrued liability	7,675,837
Net assets available for benefits, at actuarial value (Market value is \$4,473,223)	<u>4,582,660</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 3,093,177</u>

GASB 27 INFORMATION (as of 12/31/04)

Fiscal year beginning	January 1, 2006
Annual required contribution (ARC)	\$ 290,772
Amortization factor used	0.053632

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 212,415	100%	\$ -0-
2003	225,478	100%	-0-
2004	270,138	100%	-0-

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE D - PENSION PLAN (CONTINUED)

Aggregate Accrued Liabilities - Comparative Schedule

Actuarial Valuation Date December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % Of Covered Payroll
2002	\$ 4,458,342	\$ 7,052,864	\$ 2,594,522	63%	\$ 1,107,389	234%
2003	4,522,716	7,279,689	2,756,973	62%	1,028,950	268%
2004	4,582,660	7,675,837	3,093,177	60%	1,125,839	275%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000, and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

NOTE E - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

CHANGES IN LONG TERM DEBT

Description	January 1, 2004	Additions	Reductions	December 31, 2004
Equipment Installment note	\$ -0-	\$ 683,510	\$ 42,337	\$ 641,173
Lease Purchase	206,754	-0-	93,057	113,697
Compensated Absences	92,141	(1) 14,106	-0-	106,247
Total	<u>\$ 298,895</u>	<u>\$ 697,616</u>	<u>\$ 135,394</u>	<u>\$ 861,117</u>

(1) The change in compensated absences is shown as a net addition.

On October 15, 2002, the Board of County Road Commissioners entered into a lease purchase agreement with Continental Distributing Corporation for the purchase of two Komatsu Motor Graders. The financial amount of \$114,380 consists of nine quarterly payments starting on January 15, 2003, of \$13,478 at a rate of \$4.75%.

On July 20, 2003 the Board of Commissioners entered into a lease purchase agreement with John Deere for the purchase of a four wheel drive loader valued at \$140,813. The lease agreement consists of 20 quarterly payments of \$7,711 starting July 20, 2003 at a rate of 3.9%.

On July 29, 2004 the Board of County Road Commissioners borrowed \$633,510 from Northwestern Bank for the purchase of five trucks. The equipment installment note terms consists of monthly payments of \$12,295.37 starting August 29, 2004 at a rate of 3.0% with a final payment scheduled on July 29, 2009.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE E - LONG TERM DEBT (CONTINUED)

Annual Debt Service Requirements:

<u>Year</u>	<u>Amount</u>
2005	\$ 204,160
2006	178,387
2007	178,387
2008	162,917
2009	<u>86,068</u>
Total Payments	809,919
Less Interest & Fees	<u>55,049</u>
Net Balance Due	<u>\$ 754,870</u>

NOTE F - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2004 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Heavy Maintenance	\$ 500,000	\$ 629,099	\$ (126,099)
Equipment Expense - Net	\$ (100,000)	\$ (74,303)	\$ (25,697)
Administrative Expense - Net	\$ 300,000	\$ 321,875	\$ (21,875)
Capital Outlay - Net	\$ (100,000)	\$ 569,514	\$ (699,514)
Long - Term Debt Payments	\$ 80,000	\$ 135,394	\$ (55,394)
Interest Expense	\$ -0-	\$ 14,119	\$ (14,119)

The Road Commission does not use encumbrances for budgetary purposes. During the year ended December 31, 2004, the Road Commissioners made no amendments to the General Operating Fund Budget.

NOTE G - RISK MANAGEMENT

Kalkaska County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE G - RISK MANAGEMENT - (CONTINUED)

The Kalkaska Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

During 2004 and the previous two years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

NOTE H - POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note D the Road Commission provides post retirement health care benefits to union employees who retire from the Road Commission on or after obtaining age 55 with 20 or more years of service and all other employees on or after attaining age 62 with 20 or more years of service; or, those who retire under a valid disability claim regardless of age. The health care benefits consist of the Road Commission paying the monthly health insurance for a period of three years after retirement for union employees and dependents and until death for non-union employees. The costs of retirees' health care benefits are recognized as expenditures as claims are paid. For 2004, those costs totaled \$116,108.

NOTE I - COMPENSATED ABSENCES

County Road employees, after six months of service, are credited with 8 hours of sick leave for each month of service, not to exceed a total accumulation of 640 hours. Upon termination, the accumulated sick leave is paid in full. The accumulated sick leave as of December 31, 2004, totaled \$106,247.

REQUIRED SUPPLEMENTAL INFORMATION

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Michigan Transportation Funds:				
Primary road	\$	\$	\$ 1,898,484	\$
Local road			1,240,168	
Snow removal			231,052	
Engineering			3,263	
Subtotal	(1) <u>3,336,000</u>	<u>3,336,000</u>	<u>3,372,967</u>	<u>36,967</u>
State Forest Road Funds	-0-	-0-	82,663	82,663
County Raised Funds:				
Township contributions and other contributions	300,000	300,000	188,470	(111,530)
Other Revenue:				
Gain (Loss) on Sale of Equipment	-0-	-0-	17,776	17,776
Trade in Allowance	-0-	-0-	47,639	47,639
Interest, Salvage Sales, Permits and Refunds	<u>184,000</u>	<u>184,000</u>	<u>41,793</u>	<u>(142,207)</u>
Total Revenue	<u>3,820,000</u>	<u>3,820,000</u>	<u>3,751,308</u>	<u>(68,692)</u>
Other Financing Sources:				
Proceeds from Notes Payable	<u>-0-</u>	<u>-0-</u>	<u>683,510</u>	<u>683,510</u>
Total Other Financing Sources	<u>-0-</u>	<u>-0-</u>	<u>683,510</u>	<u>683,510</u>
Total Revenue and Other Financing Sources	<u>\$ 3,820,000</u>	<u>\$ 3,820,000</u>	<u>\$ 4,434,818</u>	<u>\$ 614,818</u>

(1) Budgeted in Total

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES -
BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS DECEMBER 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 500,000	\$ 500,000	\$ 626,099	\$ (126,099)
Maintenance	1,200,000	1,200,000	1,298,358	(98,358)
Local Road:				
Heavy maintenance	140,000	140,000	81,590	58,410
Maintenance	1,800,000	1,800,000	1,552,527	247,473
Subtotal	3,640,000	3,640,000	3,558,574	81,426
Equipment Expense - Net:				
Direct			795,445	
Indirect			440,535	
Operating			194,414	
Less:				
Equipment Rental			(1,504,697)	
Subtotal	(1) (100,000)	(1) (100,000)	(74,303)	(25,697)
Administrative Expense - Net:				
Administrative expense			321,875	
Less:				
Purchase discounts and Handling Charges			-0-	
Subtotal	(1) 300,000	(1) 300,000	321,875	(21,875)
Capital Outlay - Net:				
Capital Outlay			930,481	
Less:				
Equipment retirements			(17,361)	
Depreciation			(343,606)	
Subtotal	(1) (100,000)	(1) (100,000)	569,514	(669,514)
Long-Term Debt Payments	80,000	80,000	135,394	(55,394)
Interest Expense	-0-	-0-	14,119	(14,119)
Total Expenditures	\$ 3,820,000	\$ 3,820,000	\$ 4,525,173	\$ (705,173)

(1) Budgeted in total

SUPPLEMENTAL SCHEDULES

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES OF FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and other Financing Sources	\$ 2,290,041	\$ 1,355,451	\$ 789,326	\$ 4,434,818
Total Expenditures	<u>2,066,241</u>	<u>1,744,357</u>	<u>714,575</u>	<u>4,525,173</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	223,800	(388,906)	74,751	(90,355)
Optional Transfers	<u>(223,800)</u>	<u>388,906</u>	<u>(165,106)</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures After Transfers	-0-	-0-	(90,355)	(90,355)
Fund Balance - January 1	<u>76,375</u>	<u>45,849</u>	<u>832,506</u>	<u>954,730</u>
Fund Balance - December 31	<u><u>\$ 76,375</u></u>	<u><u>\$ 45,849</u></u>	<u><u>\$ 742,151</u></u>	<u><u>\$ 864,375</u></u>

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Motor Vehicle Highway Funds:				
Primary road	\$ 1,898,484	\$ -0-	\$ -0-	\$ 1,898,484
Local road	-0-	1,240,168	-0-	1,240,168
Snow removal	138,631	92,421	-0-	231,052
Engineering	<u>1,958</u>	<u>1,305</u>	<u>-0-</u>	<u>3,263</u>
Subtotal	<u>2,039,073</u>	<u>1,333,894</u>	<u>-0-</u>	<u>3,372,967</u>
State Forest Road Funds	82,663	-0-	-0-	82,663
County Raised Funds:				
Township contributions and other contributions	167,435	21,035	-0-	188,470
Other Revenue:				
Gain (Loss) on Sale of Equipment	-0-	-0-	17,776	17,776
Trade in Allowance	-0-	-0-	47,639	47,639
Interest, Salvage Sales, Permits and Refunds	<u>870</u>	<u>522</u>	<u>40,401</u>	<u>41,793</u>
Total Revenue	<u>2,290,041</u>	<u>1,355,451</u>	<u>105,816</u>	<u>3,751,308</u>
Other Financing Sources:				
Proceeds from Notes Payable	<u>-0-</u>	<u>-0-</u>	<u>683,510</u>	<u>683,510</u>
Total Other Financing Sources	<u>-0-</u>	<u>-0-</u>	<u>683,510</u>	<u>683,510</u>
Total Revenue and Other Financing Sources	<u>\$ 2,290,041</u>	<u>\$ 1,355,451</u>	<u>\$ 789,326</u>	<u>\$ 4,434,818</u>

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Primary Road:				
Heavy maintenance	\$ 626,099	\$ -0-	\$ -0-	\$ 626,099
Maintenance	1,298,358	-0-	-0-	1,298,358
Local Road:				
Heavy maintenance	-0-	81,590	-0-	81,590
Maintenance	-0-	1,552,527	-0-	1,552,527
Subtotal	<u>1,924,457</u>	<u>1,634,117</u>	<u>-0-</u>	<u>3,558,574</u>
Equipment Expense - Net:				
Direct	345,614	402,171	47,660	795,445
Indirect	191,409	222,731	26,395	440,535
Operating	84,471	98,294	11,649	194,414
Less:				
Equipment Rental	<u>(653,778)</u>	<u>(760,763)</u>	<u>(90,156)</u>	<u>(1,504,697)</u>
Subtotal	<u>(32,284)</u>	<u>(37,567)</u>	<u>(4,452)</u>	<u>(74,303)</u>
Administrative Expense - Net:				
Administrative expense	174,068	147,807	-0-	321,875
Less:				
Purchase discounts and				
Handling charges	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Subtotal	<u>174,068</u>	<u>147,807</u>	<u>-0-</u>	<u>321,875</u>
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	930,481	930,481
Less:				
Equipment retirements	-0-	-0-	(17,361)	(17,361)
Depreciation	<u>-0-</u>	<u>-0-</u>	<u>(343,606)</u>	<u>(343,606)</u>
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>569,514</u>	<u>569,514</u>
Long-Term Debt Payments	<u>-0-</u>	<u>-0-</u>	<u>135,394</u>	<u>135,394</u>
Interest Expense	<u>-0-</u>	<u>-0-</u>	<u>14,119</u>	<u>14,119</u>
Total Expenditures	<u>\$ 2,066,241</u>	<u>\$ 1,744,357</u>	<u>\$ 714,575</u>	<u>\$ 4,525,173</u>



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653
(989) 275-8831

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

August 17, 2005

Board of County Road Commissioners
Kalkaska County Road Commission
Kalkaska, MI 49646

We have audited the financial statements of the Kalkaska County Road Commission as of and for the year ended December 31, 2004, and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Kalkaska County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Kalkaska County Road Commission in a separate letter dated August 17, 2005.

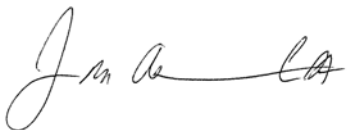
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kalkaska County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described below:

Budgets - Public Act 2 of 1968 requires a budget to be adopted by the Board of Road Commissioners at the beginning of each year subsequent to a public hearing. In addition, budget amendments should be made throughout the year as needed to avoid budget overages. As of the date of this audit report the Road Commissioners had not adopted a 2005 budget and during 2004, no budget amendments were approved resulting in total budget overages in the expenditures of \$705,173.

We also noted certain additional matters that we reported to the management of Kalkaska Road Commission in a separate letter dated August 17, 2005.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and the Michigan Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "J. Anderson", is positioned above the firm's name.

ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**KALKASKA COUNTY ROAD COMMISSION
REPORT TO MANAGEMENT
DECEMBER 31, 2004**



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653
(989) 275-8831

August 17, 2005

Board of County Road Commissioners
Kalkaska County Road Commission
Kalkaska, MI 49646

In planning and performing our audit of the financial statements of the Kalkaska County Road Commission as of and for the year ended December 31, 2004, we considered the Road Commissions accounting, operational, and internal control procedures to determine the nature and extent of our audit testing for the purpose of expressing an opinion on the financial statements of the Road Commission and not to provide assurance on the procedures themselves.

We did however, during the course of our audit, become aware of certain matters that are opportunities for enhancing those procedures or controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 17, 2005 on the financial statements of the Kalkaska County Road Commission.

We have already discussed these comments and suggestions with the Kalkaska County Road Commission personnel, and we will be pleased to discuss them in further detail at your convenience, and/or to perform any additional studies of these matters, should you so desire.

ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Pension Plan

The Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). Each year an actuarial report is prepared to determine the future funding requirements and the unfunded actuarial liability. As of December 31, 2004, the plan was under funded by \$3,093,177. This equates to 275% of the payroll covered by the pension in 2004. We recommend that the board review the full actuarial report separately issued by MERS as part of their budgeting process and future planning. Before any additional plan changes are made, we recommend that the board be fully cognizant of the impact it will have on the future funding requirements of the pension plan.

Township Contracts

During 2004, the road commission entered into a contract with Boardman Township for a road project which is not expected to be completed until 2005. The Agreement signed appears to be drawn up by the Township and is vague as to the exact amount the Township will be contributing to the project leaving some confusion with management as to the total amount to be billed to the Township. We recommend that standard contracts be prepared by the road commission for cost-shared road projects, signed by both parties and approved by a board resolution in board minutes.

Accounting

Because the final adjustments and Act 51 Report were not completed timely, the audit fieldwork did not commence until mid August. This is the second year that there has been a delay in the final accounting. We recommend that the Clerk and Road Commissioners evaluate the cause and take steps to ensure that the final adjustments be made by the end of February to allow the Road Commission to be ready for an audit in March or April.